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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 04 SOFIA 000949

SIPDIS

EUR FOR DAS BRYZA

E.O. 12958: DECL: 08/07/2017
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [RU](#) [BU](#)
SUBJECT: OPPORTUNITIES FOR U.S.-BULGARIAN ENERGY PARTNERSHIP

REF: A. SOFIA 863
[1](#)B. ANKARA 1809
[1](#)C. ANKARA 1761

Classified By: CDA Alex Karagiannis for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. New Economy and Energy Minister Petar Dimitrov recently told the Ambassador that he welcomes a partnership with the U.S. government on energy and will also work to eliminate obstacles to U.S. investments in Bulgaria. A newcomer facing a steep learning curve on energy, Dimitrov is saddled with questionable deals his predecessor made with Russia. This message reviews the status of key energy projects Dimitrov will oversee, including regional oil and gas pipelines and domestic nuclear power plants. Post also presents suggestions to engage Bulgaria more robustly in a partnership on energy security. Our recommendations include establishing a bilateral energy dialogue, encouraging Azerbaijan to do more to promote Nabucco and its gas exports, exploring the possibility of establishing a regional energy advisor and enhancing commercial cooperation in energy efficiency and renewable energy. The Ambassador looks forward to discussing these and other ideas for regional coordination at the September Chiefs of Mission energy conference. End Summary.

Minister Dimitrov: Honest, but Inexperienced

[1](#)2. (C) Prime Minister Stanishev told the Ambassador that in selecting Petar Dimitrov as Minister of Economy and Energy, he had opted for a reliable professional who was also a "decent" person -- a reference to the corruption allegations that brought down his predecessor Ovcharov (ref A). Dimitrov has a strong background in economics, but little experience in energy. Stanishev stressed that he would personally assist Dimitrov as he learns his new portfolio.

[1](#)3. (C) Ambassador met Dimitrov on July 23. Dimitrov wants to focus on attracting foreign investment, increasing professionalism and transparency, and removing obstacles to private sector development. More specifically, in the near future he will be called upon to decide Bulgaria's role in several regional pipeline projects, decommission the Kozloduy nuclear power plant and build a new plant at Belene, and answer the public's questions about the opaque deals his predecessor, former Minister Rumen Ovcharov, made with Russia. Dimitrov did not provide any new details on pipeline projects, but said he hopes to bring the Nabucco and Burgas-Alexandroupolis pipelines to successful conclusions, if practical issues could be resolved.

[1](#)4. (C) Dimitrov admitted that he had a lot to learn about energy, but promised to be up to speed by September. He also pledged to be a good partner to the U.S. Embassy and help U.S. companies facing bureaucratic hurdles. Our active

engagement with Dimitrov is especially important in light of comments made to Emboffs by trusted sources in the energy sector that former Minister Ovcharov will continue to hold considerable sway over energy issues until Dimitrov fully takes on the portfolio. Plus, with Ovcharov as chair of Parliament's economy/energy committee, he will have a hand in any legislative approvals for energy projects.

Pipeline Update

15. (C) Over recent weeks, Econoffs met numerous officials and businesspeople for updates on Bulgaria's on-going energy projects. We take some of their comments with a grain of salt given the elastic nature of the information/disinformation flow. Some players do not seem square on the facts and are seeking to influence, rather than inform. With these caveats, following is an update on the major energy projects in which Bulgaria is participating:

16. (C) Burgas-Alexandroupolis oil pipeline (B-A): Bulgarian, Greek and Russian officials met on July 12 in Sofia to discuss issues related to the formation of an international operating company to implement the B-A oil pipeline. Deputy Minister of Energy Galina Tosheva and the GOB's new legal advisor for the B-A project, Mark Lewis of the Paul Hastings, LLC law firm in Washington, DC, told us that no real progress was achieved during the meeting. Lewis said the discussions should have been more advanced at this stage of negotiations. The primary issue for resolution is the division of control within the international pipeline company. According to the current inter-governmental agreement, Russia's Gazprom will own 51 percent, while Greece and Bulgaria will each own 24.5 percent of the pipeline. Russia wants all decision-making to be on the basis of majority rule; Bulgaria and Greece would like to have more influence, perhaps through a super-majority. Lewis said that the parties would next meet on August 23 in Athens. Bulgargaz Head of Research and Analysis Jacklen Cohen noted that there still was disagreement over where to incorporate the B-A controlling company, with Bulgaria insisting that it must be in a EU country.

17. (C) B-A continued: Two Bulgarian state-owned companies, Bulgargaz and Transexportstroy, recently registered a joint venture, Burgas-Alexandroupolis BG (B-A BG), that will manage Bulgaria's share of B-A. Each of these state-owned companies owns 50 percent of B-A BG. Local Chevron representative Ivan Drenovichki explained that the B-A agreement, in addition to laying out pipeline ownership terms, also obligates Russia to provide 51 percent of the oil, and Bulgaria and Greece each 24.5 percent. As one option, Bulgaria is looking to Chevron for this oil, from increased volumes after CPC expansion. Chevron is interested in transiting oil through the pipeline, but has not yet decided whether to invest in the new Bulgarian company or simply to contract for transit. Drenovichki explained that elements within the GOB want to exclude Chevron from investing in B-A BG, to further their own ability to corruptly profit from B-A. This opposition, combined with confusion within the GOB regarding B-A BG's role in the pipeline, has caused the GOB to move very slowly and to hold up progress in planning the project.

18. (C) Albania-Macedonia-Bulgaria oil pipeline (AMBO): Cohen said there is no problem with the route itself, but according to official reports, the proposed exit point at Vlore does not have the capacity to handle the oil, a point separately made by Chevron's Drenovichki. Drenovichki said Chevron is not interested in AMBO because it would be too expensive, due to its length and the number of pumping stations needed to get the oil through the mountains. Cohen stressed that there is no possible oil source for AMBO aside from Russia. (Note: AMBO continues to refute technical issues such as routing and pumping, though the question of sourcing remains.)

19. (C) South Stream gas pipeline: On July 12, the Council of Ministers formed an inter-ministerial group to negotiate the inter-governmental agreement with Russia and Italy for the

South Stream gas pipeline. Tosheva told us she is likely to represent the Ministry of Economy and Energy in this group. She said that Italy and Russia are applying pressure to complete the agreement quickly, but Bulgaria does not feel the same sense of urgency and no deadline has been set. Tosheva confirmed that Russia pressed to hold a July 13 meeting on South Stream following B-A discussions, but Bulgarian officials declined as they were not prepared for further talks at that time. Tosheva stressed that negotiations will be difficult (because "any negotiation with the Russians is difficult"). Although Minister Dimitrov made no specific mention of South Stream, he told the Ambassador that he and the Prime Minister were loath to reexamine deals unless serious problems exist. Thus, it is doubtful that the lack of transparency surrounding the deal made by Dimitrov's predecessor will lead to a formal investigation, although parliamentary and press questions continue.

¶10. (C) Nabucco gas pipeline and Turkey-Iran MOU: Asked about how South Stream impacted the Nabucco project, Tosheva said they were not competitors; South Stream would serve the Italian market while Nabucco would serve other parts of Western Europe. She said Nabucco is lagging behind because it is an entirely private project. The Bulgarian Council of Ministers currently is reviewing a draft agreement on Nabucco. Subsequent to our meeting with Tosheva, the Turkey-Iran "preliminary" gas MOU became public (ref B). When asked if the agreement would have a negative effect on Nabucco, Bulgargaz official Cohen said that the only serious source of gas for Nabucco is Iran, and if not for Nabucco, Turkey would not have pursued the MOU. He said that he did not believe Azeri gas was sufficient to make Nabucco work in the next 5-6 years. Nonetheless, Bulgargaz, which owns 20 percent of Nabucco Gas Pipeline International, is resolved to keep on schedule with the project and has registered a new entity, "Nabucco Bulgaria," which will be the operator of the pipeline on Bulgarian soil.

¶11. (C) Nabucco continued: In general Cohen voiced strong suspicions of Turkey's motivations. He was extremely critical of Turkey's demand for a 10-15 percent share (at inland prices) of the gas transiting Nabucco. He said Turkey raised this demand at a July 10 meeting, at which time the other shareholders replied this was totally unacceptable. He remarked that Kazakhstan and Turkmenistan signed gas agreements with Russia earlier this year because they were concerned about Turkish plans; "it is better to deal with the devil you know," Cohen said. Asked about the long-term gas contract with Gazprom negotiated by former Minister of Energy Ovcharov, Cohen said that although it does not preclude sourcing gas from other suppliers, at the moment, there is no supplier other than Gazprom.

Nuclear Plants

¶12. (C) Kozloduy: As a result of her participation in the July 2 London donors meeting, Tosheva was hopeful that the EU could be convinced to double its contribution to the Kozloduy International Decommissioning Fund (KIDF) to one billion euros. This would make the decommissioning of reactors more acceptable, as the cost of closing them has been estimated at two billion euros. (Note: The EU required Bulgaria close four of the six reactors at Kozloduy for safety reasons.)

¶13. (C) Belene: Dimitrov said that he hoped U.S. companies would be able to participate in some aspect of the four billion euro Belene Nuclear Plant project, despite the fact that they will not have a share in the investment. Tosheva said she hoped the winner of the bid for strategic investors would be selected among the ten finalist companies by the end of this year. Among the ten companies are nine European entities and one firm from Hong Kong. According to Tosheva, the GOB will focus on financing the project once the strategic investors are chosen. (Note: U.S. companies have steered away from the project, presumably concerned that Russian predominance and EU insider tracks have tilted the playing field.)

Comment and Recommendations

¶14. (C) Bulgaria is tied closely to Russia on energy. This is partially a function of the previous, pro-Russian and non-transparent Energy Minister, but also a result of geography. Bulgarian officials often comment to us that they would like to wean Bulgaria off dependence on Russia, but Gazprom and Russia are the only potential energy sources in the near-term. We need to offer Bulgaria realistic mid-term alternatives. We have an opportunity to shape GOB thinking. New Energy Minister Dimitrov is a long-time Embassy contact. Despite his lack of experience, he seems willing to work with us openly and transparently on energy issues, unlike his predecessor. As a parliamentary committee chair, he assisted us in attaining approval of the Double Taxation Treaty, and his encouraging statements to the Ambassador indicate his interest in running a "clean" operation. In advance of the September Chiefs of Mission Energy Conference, we offer the following proposals for working with Bulgaria:

-- Invite Minister of Economy and Energy Dimitrov to Washington for meetings at State, DOE and elsewhere before the end of the year in order to frame his thinking on energy and strengthen his position within the Ministry on energy issues.

-- Despite our reassurances, GOB officials still believe there is insufficient Azeri gas for TGI and Nabucco phase 1. The GOB is too ready to accept Gazprom's biased analysis. Azerbaijan can do itself (and us) a world of good by engaging assertively, sending a team to the Nabucco transit countries to discuss Azeri production and promote the concept of a southern gas corridor.

-- Formalize and expand our "Bilateral Energy Dialogue." Ensure more regular visits by USG energy experts (State, DOE, Commerce, CIA) to meet with senior GOB officials and discuss regional energy security issues, renewable energy, energy efficiency, clean coal technology, and other projects and programs that could promote U.S. know-how and equipment. These visitors should distribute written analyses and charts to their GOB interlocutors.

-- Organize an energy trade mission to Bulgaria that would focus on energy efficiency and renewables. As Bulgaria has one of the most energy-inefficient economies in Europe, significant energy savings are achievable through technologies in which U.S. companies dominate. Leveraging EU funds, the economics of projects focusing on energy efficiency and renewable energy can be quite attractive. Our Commercial and Agriculture Service colleagues are already working with U.S. industry leaders in energy efficiency and renewable energy technologies. A trade mission would bolster U.S. interests.

-- Explore with USAID and ACE the possibility of providing a regional energy advisor. A regional advisor, perhaps based in Sofia or out of the Budapest EST hub, could take local ownership of advocating for southern corridor energy projects. The advisor could also work bilaterally with local and national governments to increase energy efficiency and diversify both supply and type of energy consumed. The Jefferson or American Association for the Advancement of Science (AAAS) Fellows programs are two possible sources for such an advisor.

-- Increase coordination with the European Commission and their Nabucco coordinator, with the UK, and with other European partners to present a common message and approach to our Central European allies.

-- Invite Bulgaria to participate in DOE's FutureGen pollution free coal power plant project, and other applicable USG initiatives.

